FINANCIAL HISTORY

The magazine of the Museum of American Finance

Female Investment in America

The $1 Conspiracy

Beware of Unintended Economic Consequences

ISSUE 102 | WINTER 2012 | $4.00

FINANCIAL HISTORY

THE MAGAZINE OF THE
MUSEUM OF AMERICAN FINANCE

in association with
the Smithsonian Institution

Issue 102 • Winter 2012
(ISSN 1520-4723)

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Courtesy of The Henry Ford.

IN THIS ISSUE DEPARTMENTS

ON THE COVER

Two women read ticker tape in a stock broker's office in St. Paul, Minnesota, 1929. See related article, page 14.

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Celebrating the Achievements of the Past Year

Message to Members

David J. Cowen | President and CEO

The Museum shined brightly at the annual gala in January, as we honored Felix Rohatyn with the John C. Whitehead Award for Distinguished Public Service and Financial Leadership. The exhibit hall was full and the mood festive as we celebrated the Museum's achievements of the past year — a 44% increase in individual visitors, 454 different school group visits, close to 2,000 Museum members and the publication of our magazine's 100th edition. To top that off in December, with the launch of our first online exhibit (http://presidents.moaf.org), we had 90,000 web hits, smashing all records. We expect to launch our new website shortly (www.moaf.org), enhancing our web presence and connectivity with social media.

Our evening lecture series is robust and we look forward to our upcoming programs with William Rhodes (February 28), Robert Shiller (March 27) and a panel on Andrew Carnegie (April 10). Combine this with a dozen Lunch and Learn events with contemporary authors, historians and equity and commodity traders, and you realize there is a lot happening at your finance museum — and not just for adults.

Our Center for Financial Education had a banner year and now has four components: 1) A one-hour classroom experience to supplement our tour program. We have taught over 160 classes in this program since its inception in 2010. 2) The Museum Finance Academy, our afterschool and weekend program, is a 10 class experience for 11th and 12th graders launched in the fall as a pilot program. Students are begging for a better financial education, and this Museum is a part of the solution. All students who complete this course receive a certificate, and the top performing student receives a scholarship. We will run the Academy again in the spring, as we look to secure permanent funding. 3) We again partnered with Junior Achievement to host their Finance Park for two months, and several thousand inner city students participated in the program this winter. 4) Lastly, we have been able to offer our classroom and tour programs at no charge to Title 1 schools, thanks to a generous grant from ING.

We also received an anonymous $100,000 year-end matching gift for our Center for Financial Education. This is incredibly generous and will go a long way to further our mission to teach about finance and financial history.

Our "Checks & Balances: Presidents and American Finance" exhibit, which opened on Election Day, is playing to favorable reviews in the *Wall Street Journal* and elsewhere. Next is a display about Andrew Carnegie, as we again join forces with the American-Scottish Foundation during the Scotland-Tartan Week festivities in April. We have also received an LMDC grant to climate control our feature gallery, which will enable us to borrow extremely rare and fragile items, and to exhibit some of the more delicate objects in our own collection.

Elsa Ruiz

David Cowen speaks at the Museum's 2012 gala.

Finance is still on everyone's minds as the nation and world suffer through the credit crisis, and we continue to explain and contextualize the crisis through our exhibits and programs. In the past six months we have also been approached by several other nations who are contemplating finance or money museums, demonstrating the growing interest in financial history on a global level. $

MAR 1 1935 The first US savings bond is issued after Henry Morgenthau observes that the US lacks a government savings plan.

MAR 3 1801 The London Stock Exchange is founded.

MAR 4 1472 The world's oldest continually-operating bank, the Monte della Pieta, is founded in Siena, Italy.

Teaching Financial History Through Original Documents

Founder's Letter

John Herzog | Founder and Chairman *Emeritus*

The Museum is celebrating its 25th year in 2012, marking its official anniversary on October 19. Most people remember that day 25 years ago as the Crash of 1987, but I recall it best as the moment that inspired me to start the Museum. I had been in our old trading room that day and experienced the pandemonium first hand, as I remembered my father's warning that "1929 will be back."

Noticing an absence of institutional memory on Wall Street at the time, my vision was to create a Museum to preserve Wall Street's history, as well as provide an opportunity for the public to access primary source documents through collections and exhibitions. To begin, I donated to the Museum a large portion of my own collection of financial documents, so that people could have the opportunity to actually see the history, not just read about it in a book.

There is nothing like seeing the original handwriting of a famous, often legendary individual on the letter that established the policy or the act of Congress that has profoundly influenced our history. Some documents, such as Alexander Hamilton's first *Report on Public Credit,* which he wrote, printed and distributed to Congress only eight days after being appointed Secretary of the Treasury, illustrate the remarkable talent and drive of our nation's founders. Wouldn't it be nice if we could expect that sort of performance today?

The Museum's collection continues to grow with donations and the occasional purchase, and there are currently more than 10,000 documents and artifacts in the archives. Among the highlights are hundreds of 18th century American financial documents, which are crucial to appreciating the terrific accomplishments of the nation's founders. The archives also contain thousands of stock and bond certificates, paper currency, photographs, periodicals, business documents and artifacts detailing the country's financial history from 1776 to the present. It is a terrific story, and every American needs to understand it.

This spring my alma mater, Cornell University, has invited me to speak about the Museum at another milestone anniversary, my own 55th class reunion. I will be presenting with six other classmates who have established impressive careers in the arts, and we will be speaking to a very large audience of all the Cornell reunion classes. This will be a marvelous opportunity to tell the Museum's story to a large and well-diversified group, and I'm sure it will bring more visitors to see the exhibits which, during this financial crisis, are available for all to see. **$**

Elsa Ruiz

John Herzog with Museum Trustees Andrea de Cholnoky and Tim Schantz at the annual gala.

John Herzog will address an alumni gathering at Cornell University to tell the story of the origins and history of the Museum on June 9, 2012.

MAR 7 1878 The Toronto Stock Exchange is incorporated; fewer than a dozen stocks are traded, and a seat on the exchange costs $250.

MAR 8 1817 The New York Stock & Exchange Board, ancestor of the NYSE, is formed when 24 brokers agree on a "constitution" that fixes commissions at 0.25% and sets a fine of at least six cents for talking out loud about other subjects while stocks are being traded.

2012 Museum Gala Honoring Felix Rohatyn


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1. (L to R) William Donaldson, David Cowen, John Whitehead, Felix Rohatyn and John Herzog.
2. Felix Rohatyn, recipient of the 2012 John C. Whitehead Award, speaks at gala.
3. Museum supporters enjoy pre-dinner cocktails in the exhibition hall.
4. (L to R) Trustees David Deutsch, Charles Wait and Myron Kandel.
5. Museum Chair Richard Sylla (L) and Vice Chair Charlotte Beyer (R) with Michael and Ruth Lipper.

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Photos: Elsa Ruiz

MAR 13 1986 Microsoft Corp. goes public at an initial offering price of $21 a share, raising $61 million.

MAR 14 1794 Eli Whitney patents his cotton gin, setting off an industrial boom in New England.

MAR 16 1933 President Franklin D. Roosevelt takes the US off the gold standard, removing the yellow metal from coinage and circulation.

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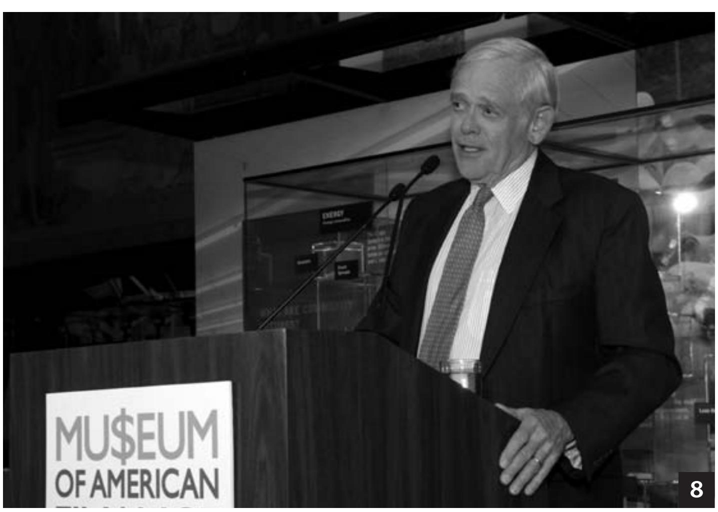

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Photos: Elsa Ruiz

6. John and Cynthia Whitehead with Chair Richard Sylla.
7. The 2012 John C. Whitehead Award for Distinguished Public Service and Financial Leadership.
8. William Donaldson, co-chair of the Museum's advisory board, speaks at gala.
9. Hundreds of Museum supporters turned out for the 2012 gala dinner.
10. Vice Chair Charlotte Beyer and Senior Educator Chris Meyers speak with Museum Finance Academy scholarship recipient Paul Lindseth.

MAR 19 1792 Wall Street crashes for the first time ever, on "Black Monday."

MAR 20 1602 The western world's first major publicly-traded company, the Dutch East India Company, is born.

MAR 29 1989 Michael Milken is indicted on 98 felony charges of violating federal securities laws at Drexel Burnham Lambert.

Paul Lindseth Receives Museum Finance Academy Scholarship for Fall Semester

The Museum is proud to announce that Paul Lindseth, a 16-year-old junior from Hunter College High School, has received the Museum Finance Academy's merit scholarship for the Fall 2011 semester.

Paul said the subprime mortgage crisis of 2007 and the ensuing economic crisis sparked his interest in the foundations of the US financial system. This led him to look at some of the recent literature on crises and markets, including *The Big Short* by Michael Lewis, *Crisis Economics* by Nouriel Roubini and *The Myth of the Rational Market* by Justin Fox, and to enroll in the inaugural semester of the Museum Finance Academy.

Paul is taking AP Economics at Hunter this year and is writing his US History term paper on the Panic of 1907 and J.P. Morgan's role in rescuing the nation's financial system from collapse.

His side interests include Taekwondo, in which he is a first-degree black belt, and writing for his school newspaper, where he is the features editor. He hopes to pursue a career in economics and finance. $

CORPORATE AND FOUNDATION SUPPORT

The Museum is most grateful for the support of the following corporations and foundations who have generously provided funding for the Museum in the past year.

- Abner, Herrman & Brock
- American Express
- Anonymous
- The Asher Family Foundation
- Aronson Johnson Ortiz
- Berkshire Capital Securities
- Bloomberg
- BLS Investments
- The Briar Foundation
- Carter, Ledyard & Milburn, LLP
- CFA Institute
- CME Group
- Consolidated Edison Co. of New York
- DeWitt Stern
- Donaldson Fund
- Downtown Alliance
- Fagenson & Co., Inc.
- Financial Recovery Technologies
- Geduld Cougar Foundation
- The Guardian Life Insurance Company of America
- Henry & Elaine Kaufman Foundation
- Herzog & Co., Inc.
- ING Americas
- Institute for Private Investors
- Knight Capital Group
- Lazard
- Lower Manhattan Development Corporation
- MacDonald & Cie
- McRoberts Protection Agency
- Morgan Stanley
- Muriel Siebert & Co., Inc.
- Nemco Brokerage, Inc.
- NYSE Euronext
- NYSE Euronext Foundation
- Patricof Family Foundation
- Peter G. Peterson Foundation
- Peter Jay Sharp Foundation
- Saber Partners, LLC
- Saybrook Capital
- Shenkman Capital Management
- The Shoreland Foundation
- Standard & Poor's
- The Stone Foundation
- Ted Moudis Associates
- Twenty-First Securities
- UBS
- Wachtell, Lipton, Rosen & Katz
- Wells Fargo & Company
- Winans International
- W. R. Berkley Corporation
- The Zweig Funds

► For information about supporting the Museum's activities and programs, please contact Jeanne Baker Driscoll, Director of Development, at 212 908-4694 or jdriscoll@moaf.org.

MAR 31 1996 Chase Manhattan and Chemical Bank — descendants of a water supply company founded in 1799 and a maker of chemicals founded in 1823 — merge, forming what then is the largest bank-holding company in America.

APR 2 1792 Congress passes the Coinage Act, establishing the US Mint.

"Checks & Balances" Online Exhibit Provides Preview of New MoAF Website

By Kristin Aguilera, Deputy Director

In December, the Museum launched an online version of its "Checks & Balances: Presidents and American Finance" exhibit. The online exhibit (http://presidents.moaf.org) complements the gallery installation by providing additional documents, images and explanatory content on the fiscal policies and personal financial lives of the five featured Presidents: George Washington, Andrew Jackson, Abraham Lincoln, Woodrow Wilson and Franklin D. Roosevelt. It also provides access to numerous supplemental resources, from articles and exhibit catalogs to scans of primary source documents from the Museum's collection.

The "Checks & Balances" online exhibit also provides a glimpse at the design and functionality of the Museum's new website, which is currently being developed. Among the enhancements is a touch-friendly photo rich design that reformats itself to display properly on tablets and mobile devices, as well as on computer monitors of different dimensions.

The site will also provide improved integration with social media, as it will stream the Museum's Twitter and Flickr feeds and will enable sharing on more than 100 different platforms. The new website will also provide members, supporters and visitors with enhanced online shopping, donation and event and group registration capabilities.

The new Museum website is scheduled to launch this spring at www.moaf.org. $

MU$EUM OF AMERICAN FINANCE

UPCOMING EVENTS CALENDAR

Mar 27 Lecture/Symposia Series: Robert Shiller on "Finance and the Good Society." 5:30 – 7:00 p.m. Members and students free; non-members $15. Presentation followed by Q&A and reception.

Apr 4 Walking Tour: History of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes admission to Museum and Lunch and Learn with Abe Briloff.

Apr 4 Lunch and Learn Series: Abe Briloff on "Private Equity Firms: Unaccountable Accountability and Anti-Social Behavior." 12:30 – 1:30 p.m. $5 includes Museum admission. Feel free to bring your lunch.

Apr 10 Lecture/Symposia Series: "Life & Legacy of Andrew Carnegie," in partnership with the American-Scottish Foundation. 6:00 – 8:00 p.m. Members and students free; non-members $45 (includes one-year Museum membership). Panel discussion followed by Q&A, reception and viewing of Museum display on Carnegie.

Apr 17 Walking Tour: Women of Wall Street. 11:00 a.m. – 12:30 p.m. $15 includes admission to Museum and Lunch and Learn with Victoria Bond.

Apr 17 Lunch and Learn Series: Victoria Bond on "Mrs. President: The Life of Victoria Woodhull." 12:30 – 1:30 p.m. $5 includes Museum admission. Feel free to bring your lunch.

For information and reservations, please contact Tempris Small at 212-908-4110 or tsmall@moaf.org.
Visit our website at www.moaf.org/events for additional events and tours.

APR 8 1935 The US Congress enacts legislation creating the Works Progress Administration, which employs 8 million people during the Depression.

APR 9 1970 A NYSE member firm goes public for the first time as Donaldson, Lufkin & Jenrette launches its own IPO.

APR 12 1996 Yahoo! Inc. launches its IPO on Nasdaq, selling 2.6 million shares at an initial price of $13 a share.

From the Collection: Liberty Loan Bond of 1917

By Lawrence D. Schuffman

The next two years mark financial milestones in American finance, as the Federal Reserve System commemorates its centennial anniversary in 2013. The Federal Reserve Act, signed on December 23, 1913, led to the creation of the 12 Federal Reserve banks the following year, when William Gibbs McAdoo became the first Treasury Secretary under this newly-formed central banking system.

In honor of these milestones, the Schuffman family recently donated to the Museum's permanent collection the $50 First Liberty Loan Bond of 1917 shown here.

About the First Liberty Loan

When the United States joined World War I, Treasury Secretary McAdoo drew upon the financial strategies implemented during The Civil War and quickly realized that America would be unable to finance the war effort strictly through increased taxation. He believed such efforts by the newly-designed Federal Reserve System would drive the country into a severe recession or worse, another depression similar to the one it experienced 10 years prior during the Panic of 1907.

McAdoo smartly realized that the majority of the funds required to finance the war effort must be borrowed. Instead of issuing securities with pedestrian names like "5-20s" and "7-30s," which denote first call date and final maturity, he and his staff marketed the bonds to America's new class of immigrants and other citizens who wanted to prove their loyalty to America. They called the bonds Liberty Loan Bonds.

The series of five bonds (the fifth being known as "Victory Loan Bonds" for the Roman numeral "V" for five) were issued at "par" in both coupon (bearer) and registered form (similar to today's savings bonds). They were sold primarily through banks, post offices and Liberty Loan Bond drives, where celebrities such as Charlie

APR 15 1955 A middle-aged milkshake-mixer salesman named Ray Kroc opens the first McDonald's franchise in Des Plaines, IL. It racks up $366.12 in sales of 15¢ hamburgers and 10¢ french fries on the first day.

APR 17 1989 An all-financial news television service premieres, as CNBC airs its first market broadcast.

Chaplin and Mary Pickford made "whistle stops" around the country to promote sacrifice, thrift and patriotism.

All of the Liberty Loan Bonds boast beautiful designs, vibrant colors and patriotic vignettes. The bond shown here is an example of the first series featuring the Statue of Liberty on the front (the image most immigrants first saw) and a majestic bald eagle and allegory of Columbia on the back.

The bonds paid either a partially or completely tax-free income of between 3½–4¾%, depending upon the series and duration. War Bonds and War Savings Stamps financed more than 2/3 of the cost of the war, an amount totaling $23 billion in 1918 (close to $750 billion today).

Since the bonds were backed by and denominated in gold, once the US dropped the gold standard in 1933 (changing the dollar/peg to an ounce of gold from $20 to $35), the outstanding bonds were devalued by the same amount. While convertible into silver certificates, Federal Reserve notes or legal tender notes, the bonds were no longer redeemable in gold coin, creating a "soft" default.

Nearly a century later, these bonds are quite rare and valuable in any condition, and they have sold for many multiples of face value. When they turn up amongst other papers and are sent in for redemption to the Bureau of the Public Debt, they are still cashed in for face value to this day. $

Lawrence D. Schuffman, MSFS, ChFC, CLU, holds a Masters Degree in Financial Services and specializes in Estate and Retirement Planning through Summit Financial Services in Parsippany, NJ. He is an Adjunct Professor of Finance at Montclair State University in Montclair, NJ. A Board member of the Society of Paper Money Collectors, Larry has written many articles and has lectured within the field of scripophily and numismatics; he is currently working on a book on Liberty Loan Bonds. The Schuffmans are supporters of the Museum not only through this collection donation, but also as founding members of the Museum's Futures Society.

APR 26 1973 The Chicago Board Options Exchange opens for trading, with call options available on 16 US common stocks. For the first time, stock options are listed on a dedicated exchange.

APR 30 1803 Thomas Jefferson signs the Louisiana Purchase, paying Napoleon Bonaparte $15 million for 828,000 square miles of territory. The US finances the deal by borrowing $11.25 million in 6% bonds from European investors.

Patents, Hostile Takeovers and the Making of the Fortune of Alexander Graham Bell

By Dan Cooper and Brian Grinder

"The only thing is that business (which is hateful to me at all times) would fetter me as an inventor. Still I must do something for a living and do it now."

— Alexander Graham Bell

Alexander Graham Bell would have been the first to admit he was a terrible businessman. His two great passions were education for the deaf (his mother and wife were both deaf) and inventing. For Bell, business was just a nasty side effect of the process of invention. Unlike Thomas Edison, who developed his Menlo Park lab into a money making machine, Bell never disciplined his mind or directed his ideas towards profitable inventions.

After the telephone, Bell turned his attention to whatever captured his fancy. This included a device known as an "induction balance," which was used in an unsuccessful attempt to locate the bullet in President James A. Garfield's body after he had been shot by Charles Guiteau. He also invented a vacuum jacket which was a precursor to the iron lung, and he heartily participated in the race to develop the airplane. The Bell-backed Aerial Experiment Association's "June Bug" was the first airplane to fly a kilometer in public. Unfortunately, none of these inventions produced any significant profits for Bell. Had it not been for Bell's father-in-law, Gardiner Hubbard, and the vagaries of the market, he might have never profited from his invention of the telephone.

Thomas Watson holds a model of Alexander Graham Bell's first telephone.

Hubbard was a promoter and entrepreneur who first crossed paths with Bell in his efforts to educate his deaf daughter Mabel. He became aware of Bell's experiments with telegraphy and telephony and offered financial support. The particular experiment that caught Hubbard's attention was Bell's effort to send multiple telegraph messages through a single wire simultaneously. In Hubbard's opinion, this was a more promising venture than the telephone, and he urged Bell to make it a top priority.

However, Bell, who was an expert in how humans produce sounds, kept gravitating back to his telephone experiments. He and his assistant, Thomas Watson, worked tirelessly on the project, and by March 1876 had produced a working telephone. Hubbard eventually realized the value of the device and urged Bell to patent it immediately.

Bell thought it would be more important to secure a British patent before seeking a patent in the United States. However, when delays, miscommunications and other missteps prevented the British patent from being granted in a timely manner, a

© Heritage Images/Corbis

A group of businessmen watch inventor Alexander Graham Bell as he opens the New York – Chicago telephone line.

frustrated Hubbard took matters into his own hands and filed for a US patent on Bell's behalf without his knowledge. This first patent was granted in 1876 and a second crucial patent for improvements to the telephone was granted in 1877.

The American Bell Telephone Company was established in 1877, with Bell receiving about 30% of the new company's shares. Legal challenges to Bell's patents soon materialized with the most important challenges coming from inventors Elisha Gray and Thomas Edison. The fledgling company struggled to build a communications infrastructure from scratch while defending itself from patent challenges.

Far more ominous for the new venture was competition from Western Union, the large and powerful telegraph company. Western Union had several advantages over the upstart Bell Company. Most importantly, its existing infrastructure of telegraph wires allowed Western Union to quickly convert spare wires for telephone service as it ran roughshod over the Bell patents. Western Union also began selling telephones developed by Gray and Edison that were superior to Bell's telephones. The Bell Company was at a crucial point in its young history. Company officials realized that the future of the firm rested on a successful defense of the Bell patents against Western Union's encroachment. With Hubbard leading the charge, they filed a suit against Western Union in the summer of 1878.

Bell, who married Hubbard's daughter Mabel on July 10, 1877, had set off for England and Scotland for an extended honeymoon. The trip was extended even further when Mabel became pregnant and was advised by doctors not to risk a return to the United States until after the child was born. Elsie May Bell was born on May 10, 1878, but the Bells were in no rush to return to the US in spite of Hubbard's urgent requests that they return as quickly as possible. Bell complained to Mabel that he was "sick of the telephone" and was "done with it altogether," but they both understood that his testimony was crucial for a successful patent defense.

Finally in October, he reluctantly booked passage back to North America, but he did not go to Boston where the Bell Telephone Company was headquartered. Instead, he traveled to Quebec, Canada where he planned to visit his parents. The company quickly dispatched Thomas Watson to meet Bell in Canada and return with him to Boston. Watson's mission was urgent because the Patent Office had extended the deadline for Bell to file his statement to late November. If it wasn't filed by then, the suit could not go forward and the company's investors stood to lose hundreds of thousands of dollars.

Watson met the Bells at the dock on November 10 and got an earful from the irate inventor. According to Bell biographer Charlotte Gray, Bell told Watson that he wanted nothing more to do with the telephone. "…Watson listened to Alec rant that he hated the world of commerce and the slurs on his integrity. Why should he waste time with greedy lawyers when he could do far more good helping deaf people? He was an honest inventor, not a businessman; if the other shareholders were so keen on this business, why couldn't they deal with all of this?" » *continued on page 36*

By Marissa Knaak and Megan Soe

Female Investment in America

From the 18th Century to the Great Depression

A persistent historical myth is that women were little engaged in economic matters until the last third of the 20th century. In fact, women have always been an integral part of the market economy as consumers, employees, entrepreneurs and investors. Historians like Woody Holton have just begun to explore the strategies of famous female investors like Abigail Adams. Thousands of less famous women, however, have also left traces of their investment activities. What female investors lacked was power, the ability to exert any appreciable degree of control over the policies of the governments or corporations their money supported.

Early female investors could be married women allowed to make investment decisions under coverture restrictions (like Adams), married women who claimed *feme sole* status (the right to trade on their own accounts) or single (unmarried or widowed) women. Such women could work for wages, run their own businesses or make passive investments in financial securities like bank deposits, government bonds and corporate equities.

Prior to the Civil War, female investment patterns were similar to those of men, and female stockholders could vote in corporate elections on the same basis as male investors. A New Jersey law passed in 1841, for example, explicitly stated, "Each stockholder shall be entitled to one vote for each share … held by him or *her* [emphasis added]." Women remained passive investors in the 19th century, however, and rarely, if ever, served as directors or executives.

Passive portfolio investment by females began in Europe. Women in England began investing in corporations that paid steady dividends, like the Bank of England, in the 1690s. In late 17th and early 18th century England, as in America a century later, female investors were unmarried or acted with the approval of their husbands. Most invested in relatively safe securities, like government bonds and bank shares, though some of the investors entangled in the South Sea Bubble were women.

A few women in colonial British North America also invested in government bonds, some issued by municipalities (e.g., Philadelphia), some by provincial governments (especially Massachusetts) and some by England. Female investment in America expanded greatly during the Financial Revolution of the 1790s when women invested in the new bonds issued as part of Alexander Hamilton's funding and assumption programs. One out of every 10 federal bondholders in South Carolina, for example, was female. In New York, one in every eight federal bondholders was female. In New Hampshire, the ratio of female federal bondholders was three out of five.

The 1790s also witnessed a rapid rise in the number of corporations. Before the Civil War, over 22,000 businesses were chartered under special acts of incorporation and thousands more under general incorporation laws. Women contributed a significant share of their initial capitals. In Pennsylvania, they comprised 8.6% of the 74,588 economic entities (individuals, businesses, governments and non-profits) that invested in 764 corporations chartered between 1814 and 1859 for which public offering records survive, though the female investors bought only about 2% of the 2.7 million total shares subscribed in those companies.

Other extant records suggest that women supplied between 5–15% of corporate capital in the first half of the 19th century and comprised an even higher percentage of stockholders. In 1845, for example, 68 of the 390 (17.4%) stockholders in the Merrimack Company were women. According to political economist Henry C. Carey, shares in limited liability corporations were better investments for women than investing in their own proprietorships because they could purchase stock without the risk of losing more than their initial investment.

That is not to say, however, that many female investors did not prefer the relative safety of stocks that paid steady dividends, like banks and insurance companies, over mining, real estate development and other speculative concerns. In Massachusetts in the late 1830s, females owned about 38.5% of the state's total banking capital. At the same time in Maine, they owned about 10%, though they comprised about 15% of the stockholders in that state's 50 banks. By the early 1850s, women comprised one in four stockholders in Maine banks and owned 16% of their capital.

Women's engagement in the economy continued after the Civil War. Female proprietorship peaked in the 1870s and 1880s but was largely concentrated in the apparel and lodging industries. Females also continued to invest in financial securities and by 1880 or so had attracted the special attention of stockbrokers.

Women decided which stocks to invest in based on advice from friends, relatives, magazines and newspapers, and they continued to concentrate on government bonds and relatively liquid stocks that paid steady dividends. Again, commercial banks figured prominently in many of their portfolios. In the Merchants National Bank of New Bedford (Massachusetts), for example, 343 out of the 777 (44%) stockholders between 1880 and 1892 were female. The women actually owned more shares than the average male investor, for a total of about 50% of the bank's shares.

The number of female investors continued to grow in the early 20th century. In 1910, the Pennsylvania Railroad had 50,000–60,000 stockholders, of which almost one half were women. Following the Panic of 1907, an influx of "bargain hunters," including some women, appeared on Wall Street. Emboldened by the success of some female speculators, other women began considering a wider range of investments, including industrial, transportation, automobile and food stocks. World War I also contributed to the expansion of female investors. The Liberty Loan campaigns drew many less affluent women into the financial markets for the first time, and initiated a change in cultural values away from restrictive Victorian mores toward the more liberal ones of the Roaring Twenties.

After the war, many companies instituted employee stock ownership plans (ESOPs) and customer ownership plans (COPs) that allowed more small investors, including women, to buy shares. Companies began those programs because they saw the impact women had on the financial market. These plans allowed more women to invest in stocks, further increasing the stockholder pool.

As the number of female shareholders increased, so did the types of corporations they invested in. By 1920, female investors owned between 25–40% of General Motors, B. F. Goodrich, Borden's Condensed Milk Company and the National Carbon Company. They also owned a majority of the preferred stock in the American Locomotive Company and a majority of all stock in the American Express Company and

Left: Two women read ticker tape in a stock broker's office in St. Paul, Minnesota, 1929.

Abigail Adams invested in US government bonds
and is one of the earliest known female bond speculators.

the Delaware, Lackawanna & Western Coal Company. In 1924, the Pepperell Mill's two largest groups of shareholders were women and trustees. By 1926, about 200,000 of American Telephone's 366,000 shareholders were women. By the Great Depression, many leading corporations had more female than male shareholders.

That is not to say, however, that women exerted any significant degree of control over the companies that they nominally owned. Most women owned a few shares in many different companies and did not vote as a gender bloc. As corporations grew ever larger and replaced prudent mean or capped voting rules[1] for uncapped, one vote per share rules, small investors lost any power of persuasion they once had.

Moreover, directors and executives increasingly limited the quantity and quality of information available to potential investors and even their own stockholders. Women were unlikely to attend annual meetings, thus further limiting their access to information and their ability to sway corporate elections or decision-making. The proliferation of non-voting stock and classes of restricted stock with super voting rights disenfranchised many small investors (male and female), while those who retained their traditional voting rights typically ceded them to executives via proxy mechanisms.

By the Depression, many large corporations were controlled by their salaried executives rather than by boards of directors freely elected by stockholders. Hired executives had little incentive to guard the interests of any small investor, let alone female investors in particular. After ownership and control divorced, female and other small investors were essentially devoid of any significant form of representation. If they disliked a particular corporation's policies, their only viable option was to sell their shares and invest in another large corporation in which they had no control or to leave the stock market altogether. But women faced even greater challenges when they tried to invest more actively, both in their own businesses or as angel investors or venture capitalists.

The traditional view that women were largely excluded from the financial system until after World War II is factually flawed. Following English precedents, women in America since the colonial period invested in financial securities, including government bonds and corporate equities. What they lacked, as both females and as small investors, was control. Before the Civil War, when small holders still exerted influence over corporate affairs, female investors remained in the minority. When they owned a majority of shares in some commercial banks in the late 19th century, Victorian mores excluded them from directorships. And by the time they came to own a majority of the shares in major industrial concerns in the early 20th century, executives had successfully seized control of corporate elections and entrenched themselves in power. Despite their effective disenfranchisement, women were expected to continue to turn their savings over to the control of men and, effectively blocked from other lucrative investment options, for the most part did so. $

Marissa Knaak is a junior history and German major and is in the Civitas (honors) program at Augustana College in Sioux Falls, South Dakota. Megan Soe is a junior history major and French minor at Augustana College in Sioux Falls, South Dakota. Both authors are recipients of the Thomas Willing Institute fellowships.

» *continued on page 38*

SANFORD J. MOCK
TRIBUTE ARTICLE

This series of articles on 18th century American finance is dedicated to the memory of Sanford "Sandy" Mock. A long-time collector of historical financial documents, Sandy contributed several articles to *Financial History* magazine and donated a large portion of his 18th century collection to the Museum's archives. Sandy's spirit of the adventure of collecting, his eager cooperation with many others in their research, and his generosity on behalf of those who love the history of finance will always be with us.

INSURING LIVES AND PROTECTING FAMILIES

The early years of the $5 trillion life insurance industry

By Alan Lavine

It's hard to believe that life insurance, a $5 trillion industry in the United States, was once considered profane. After all, many initially thought it would be offensive to put a dollar value on a person's life.

But the insurance industry, which already had been insuring ships and later the lives of marines in England as far back as the 16th century, began informally protecting human lives in the United States in the mid-18th century. In the wake of the Great Fire of London in 1666, members of organizations began seeing the need to sign agreements to contribute to the protection of member property. Benjamin Franklin had helped kick-start the idea of insurance in Philadelphia, then a town of only 15,000 people. In 1752, he had joined with fellow fire fighters to form The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire Inc., the nation's first mutual property insurance company.

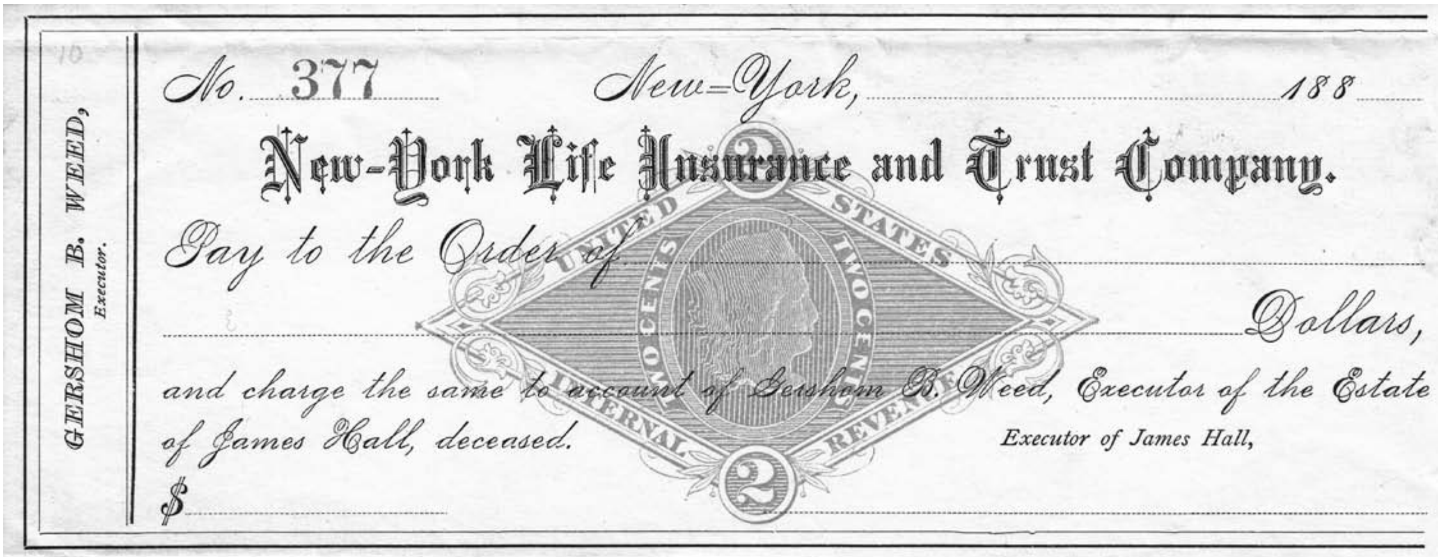
Also in Philadelphia in the 1700s, a charitable organization was developed to help finance and protect the work of Presbyterian ministers and their families. Initially known as the "Fund for Pious Uses," contributions first went to fund new Presbyterian congregations in New York. The New York congregations later contributed to the fund. After funds were used to aid the widow of a deceased reverend and subsequently helped a minister, the Presbyterian Synod of Philadelphia established the Corporation for Relief of the Poor and Distressed Widows and Presbyterian Ministers. By the early 1760s, the corporation had 43 contributors and had issued 21 policies to ministers.

The Episcopalians in Philadelphia created a similar relief fund in 1769. The evolution of churches into the life insurance business helped eliminate distaste for the concept. In time, attitudes changed to favor the idea of protecting loved ones.

Meanwhile, Alexander Hamilton, who was appointed America's first Secretary of the Treasury in 1789, was building the foundation of the nation's financial infrastructure. The US government assumed the debts of the Revolutionary War by issuing interest bearing securities, and Uncle Sam began collecting taxes. Hamilton established the First Bank of the United States in 1791. As a result, the United States was considered a stronger credit risk and issued currency. State chartered banks began springing up.

As the nation prospered in the 19th century, marriage rates and life expectancies rose and infant mortality rates fell, creating demand for greater family protection.

The first US commercial life insurance company — The Pennsylvania Company for Insurance on Lives and Granting Annuities — was chartered in 1812 and funded with $500,000 in capital. The



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19th century blank check from the New-York Life Insurance and Trust Company.

company leased a house at 72 South Second Street in Philadelphia. One of its key founders, Jacob Shoemaker, lived in the house, but used the front and back parlors on the first floor for business. The insurer issued term insurance, whole life, deferred annuities and immediate annuities. The company's first policy was written on June 10, 1813.

In those days, life insurance was significantly more expensive than it is today. A 40-year-old male paid $3.72 per $100 of whole life insurance coverage, according to the nation's first mortality table, produced in 1814 by that Philadelphia-based insurer.

Today, by contrast, it costs a male only $1.40 per $100 of whole life insurance, reports AccuQuote in Wheeling, IL.

Contributing to the high cost of life insurance in the 18th and 19th centuries were shorter life expectancies. Policies "endowed" faster. In other words, the cash value in the savings portion of the policy more quickly accumulated to an amount equal to the death benefit paid to beneficiaries.

Before The Pennsylvania Company for Insurance on Lives and Granting Annuities could issue a policy, an applicant was required to provide information that included his or her age, state of health, occupation and residence. The individual also had to provide a statement of "insurable interest," if the policy was taken out on another person. This requirement, aimed at combatting fraud, confirmed that a policyholder had a bona fide interest in designating a beneficiary — such as blood or marriage. The company collected vital statistics from records of the Episcopal Church and the Philadelphia Board of Health. Premiums were based on its mortality table (see pg. 19).

Shoemaker set the pricing and created a reserve fund, financed by 5% of the company's profits, before dividends were distributed. The company said it would pay claims within 60 days, but declined payments if the insured died by "suicide, dueling or the hands of justice, and travel was restricted to parts of Canada and the United States north of the southern boundaries of Virginia and Kentucky unless the consent of the company were obtained."

The company paid its first dividend of 4% to stockholders in 1815.

Shoemaker is believed to have been the first North American actuary. Actuaries, so essential to the insurance industry, are mathematicians who use probability and other types of statistics to construct mortality and morbidity tables, calculate premiums, reserves, dividends and insure that the correct amount of death benefits are paid to a policyholder's beneficiaries.

Actuarial mathematics had its roots in 17th century England. Edmond Halley, the Oxford-educated English astronomer better known for a comet that bears his name, is credited with developing the first mortality table in 1693. James Dodson, founder of the Equitable Life Assurance Society in England, developed a level premium system that led to the establishment of the Society for Equitable Assurances on Lives and Survivorship in London in 1762.

Richard Price, an Englishman who wrote a life insurance text book, *Observations of Reversionary Payments: On Schemes for Providing Annuities*, published in 1771, was critical to the field. His book included the most accurate mortality table of its time and led insurance companies to more precisely calculate premiums and insure high-risk applicants.

The nation's first mutual life insurance company, New England Mutual Life Insurance, was chartered in 1835. Mutual insurance companies are owned by policyholders and pay them dividends based on excess profits.

By 1840, there were about 840 US banks taking in deposits and making loans and nearly $5 million in life insurance was in force — half with New York Life Insurance and Trust Co. By 1844, 34 insurance companies had been chartered. Real US per capita Gross National Product had more than doubled from $50 in 1790 to $125 by 1850.

PENNSYLVANIA COMPANY FOR INSURANCES, ON LIVES AND GRANTING ANNUITIES

EXPECTATION OF LIFE, PHILADELPHIA, 1814

Age	Episcopal Church	Board of Health	Age	Episcopal Church	Board of Health
1 yr.	30.91 yr.	25.96	40 yr.	21.44	19.15
5″	37.91	36.94	50″	17.32	16.32
10″	37.12	34.59	60″	13.75	13.71
15″	34.10	30.92	70″	9.37	9.83
20″	30.60	27.04	80″	5.95	6.97
30″	25.50	21.48	90″	n/a	4.73

TABLE OF PREMIUM RATES FOR $100 OF LIFE INSURANCE

Age	1 Yr Premium	7 Yrs. Annual Pre	Whole Life Annual Pre.	Age	1 Yr. Premium	7 Yrs. Annual Pre.	Whole Life Annual Pre.
14	$0.98	$1.18	$2.06	41	$2.31	$2.50	$3.82
15	0.99	1.25	2.12	42	2.39	2.56	3.93
16	1.06	1.35	2.18	43	2.45	2.63	4.04
17	1.16	1.43	2.24	44	2.50	2.71	4.16
18	1.27	1.50	2.29	45	2.56	2.79	4.29
19	1.37	1.56	2.35	46	2.62	2.89	4.41
20	1.50	1.62	2.39	47	2.69	2.99	4.54
21	1.59	1.66	2.45	48	2.76	3.10	4.68
22	1.61	1.68	2.49	49	2.87	3.21	4.82
23	1.63	1.70	2.54	50	3.03	3.34	4.99
24	1.65	1.73	2.59	51	3.15	3.45	5.14
25	1.68	1.77	2.65	52	3.24	3.56	5.30
26	1.71	1.79	2.70	53	3.35	3.68	5.41
27	1.73	1.83	2.76	54	3.46	3.82	5.65
28	1.77	1.86	2.81	55	3.57	3.96	5.85
29	1.80	1.89	2.87	56	3.69	4.11	6.16
30	1.82	1.92	2.93	57	3.83	4.26	6.21
31	1.85	1.96	3.00	58	3.97	4.43	6.50
32	1.89	1.99	3.06	59	4.13	4.62	6.75
33	1.92	2.02	3.14	60	4.29	4.80	7.00
34	1.95	2.07	3.21	61	4.47	4.99	7.28
35	2.00	2.13	3.28	62	4.60	5.22	7.57
36	2.03	2.18	3.37	63	4.81	5.49	7.89
37	2.07	2.24	3.45	64	4.99	5.76	8.23
38	2.12	2.30	3.54	65	5.23	6.09	8.62
39	2.15	2.35	3.64	66	5.50	6.47	9.03
40	2.23	2.43	3.72	67	5.80	6.89	9.47

Source: Pennsylvania Company for Insurances on Lives and Granting Annuities

Easier access to the capital markets had been fueling the insurance company start-ups. Insurers formed joint-stock companies that sold options to buy stock directly to the public, without an investment banker intermediary. Subscriptions, which ranged from $10 to $1,000 per share, were paid over time. Mutual insurance companies had similar set-ups with their policyholders directly.

With a securities market, insurance companies could tap premiums, pay claims and profit on investment spreads and proper underwriting. Insurance companies invested in stocks, bonds, loans and government securities that paid dividends and interest.

The growing insurance industry, however, was not without problems.

By the mid-1800s, more than half had gone out of business due to poor policy sales. Companies that terminated charters often had limited local business. People began losing faith that insurers would pay claims.

Regulations had begun to evolve.

New York State in 1840 adopted a law preventing creditors from seizing a widow's death benefits. Other states soon followed suit.

The first state insurance department debuted in Massachusetts in 1858. Elizur Wright, actuary with New England Mutual, served as its insurance commissioner for eight years. Wright established standards for life insurance company solvency and policyholder withdrawals. As commissioner, he required insurers to hold adequate reserves to guarantee that death benefits would be paid. Non-forfeiture provisions mandated that policyholders receive any equity accumulated in his or her policy cash value if coverage were canceled.

The development of regulations helped spark greater awareness of life insurance.

Wright, upon stepping down as Massachusetts insurance commissioner, helped mobilize the actuarial profession to share ideas and improve the business. The Actuarial Society of America, now the Society of Actuaries, debuted at the Astor House in New York in 1889.

Insurers found they could lower investment costs and risks by investment diversification and risk pooling. Thanks to attractive market rates, they were able to invest well and pass on those benefits via attractive rates on policyholders' cash value. From 1790 to 1849, the stock market grew at a 6.4% annual rate. Government bonds grew at a 5.8% annual rate.

Insurance companies, though, were prohibited from speculating with policyholder money. That's because the Pennsylvania charter of the Insurance Company of North America in Philadelphia, as far back as 1794 had set a precedent limiting investment speculation. Company investments were limited to government securities, bank debt and other bond issues. The company was prohibited from trading securities or conducting banking business.

Over the years, the lump sum benefits of insurance policies have triggered policyholder dishonesty, greed, fraud, and insurance company mismanagement and discrimination. Perhaps one of the greatest injustices still playing out today is that African

» *continued on page 39*

THE $1

How Ralph Kramden brought down Casey Jones, in which a cartoon rabbit and a very real civil-rights heroine also appear

By Gregory DL Morris

Courtesy of The Henry Ford.

The bus on which Rosa Parks made her famous stand by sitting down at the front. The Montgomery transit system was the first in which NCL replaced streetcars with buses. NCL operated the city's transit system for four decades, longer than any other.

CONSPIRACY

Conspiracy theories are endemic to politics and big business. Vast library shelves groan under the weight of hundreds of volumes revealing "the truth" about or debunking lurid tales of assassinations, movie stars, organized crime and smoke-filled rooms. Most of the theories fall flat after a moment's sober reflection, but the stories seem deathless.

A great irony of the unending fascination with conspiracies is that one of the very few that was not just proven, but for which the perpetrators were tried and convicted, lies forgotten. Among a dedicated few the debate over the National City Lines (NCL) continues to rage. But few people outside the wonkish world of transit advocates know that for the middle half of the 20th century a coalition of oil, tire and automobile companies created a front company to buy up municipal streetcar lines and convert them to buses.

Eventually they were indicted for conspiracy in restraint of trade. The companies were fined $5,000 each, and the individuals just a dollar. But like unraveling the thread on the cuff of a sweater, the national system of streetcars and inter-urbans had already become tattered as Americans by the millions bought cars.

The closest approach the NCL story came to wide attention was when a variation on the theme provided the plot line for the film, *Who Framed Roger Rabbit?* In the movie, an evil judge arranges to buy and close the famous Red Cars in Los Angeles, thus forcing the good citizens of the city to drive and patronize the chain of highway service centers the judge happens to own.

Transit advocates argue passionately that the NCL conspiracy has cost the American economy billions of dollars, not just as people sit unproductive in traffic, but in the huge capital expenses cities are now incurring to re-create some basic mass transportation in their communities.

The counter argument is that the streetcars themselves, as well as their infrastructure were worn out, and that it was less expensive to replace them with more flexible buses than to rebuild so many miles of track and catenary. Also, people were buying cars and moving to the suburbs anyway, so investment in inner-city and inter-city transit would not have served a growing portion of the population. The NCL kerfuffle was just a footnote in a much wider, inexorable trend of demographics.

But at the time, the debates — and indeed the legal dispute — were not about deployment of capital, or demographics, or returns on investment. The conviction was on restraint of trade: not that NCL was shredding the transit infrastructure, but rather that as an operating company, NCL only bought vehicles, fuel and components from its owner companies, not from other suppliers that competed with them. The debates over public policy came later.

People who grew up during the Great Depression insist it was possible to travel from New York to Chicago strictly by taking inter-urban lines end to end. If one was wandering in search of work and had no money for the direct passenger train service, there was even an advantage of being able to stop in towns along the way.

In retrospect, it is amazing that the mass transit infrastructure of the early 20th century was so comprehensive. Today the only true inter-urban connection left is travel from Pennsylvania Station in New York to 30th Street Station in Philadelphia, taking New Jersey Transit to Trenton and switching there to the South East Pennsylvania Transit Authority.

According to the Historical Statistics of the US (1975), streetcar ridership peaked in 1920 at about 14 billion rides. At about the same time, General Motors and other automobile manufacturers saw flattening revenues as well, and sought to diversify into other forms of motor vehicles, primarily trucks and buses, but they also became military contractors.

Those early buses enhanced the existing rail system by providing feeder service; they also provided service in small towns that did not have the revenues or density

Courtesy of Hennepin County Library, Special Collections Department.

A streetcar burned for scrap in Minneapolis. NCL was the biggest player in replacing streetcars with buses, but many cities did it on their own, as this ghoulish scene attests. NCL operated transit systems in Illinois, Wisconsin and Iowa, but not Minnesota.

to justify the capital investment in even a light trolley line. There was enough of a growth market to go around until the early 1930s, when the bite of Depression was hitting municipal coffers as well as corporate bottom lines.

"On June 29, 1932, the GM-bus executive committee formally resolved that 'to develop motorized transportation, our company should initiate a program of this nature and authorize the incorporation of a holding company with a capital of $300,000,'" according to the 1973 report to the federal government titled, "American Ground Transport, A Proposal for Restructuring the Automobile, Truck, Bus, and Rail Industries," by anti-trust attorney Bradford C. Snell.

The report continued, "Thus was formed United Cities Motor Transit (UCMT) as a subsidiary of GM's bus division. Its sole function was to acquire electric street-car companies, convert them to GM motorbus operation, and then resell the properties to local concerns which agreed to purchase GM bus replacements. 'In each case,' [GM General Counsel] Hogan stated, GM 'successfully motorized the city, turned the management over to other interests and liquidated its investment.' The program ceased, however, in 1935 when GM was censured by the American Transit Association (ATA) for its self-serving role, as a bus manufacturer, in apparently attempting to motorize Portland's electric streetcar system."

The following year, building on its earliest forays into buses, GM formed NCL, together with Firestone Tire & Rubber, Standard Oil of California (today Chevron), Phillips Petroleum and Mack Truck. The venture was wildly successful. In the January 1951 appeal of their conviction, which was denied, the three judges of the United States Court of Appeals Seventh Circuit wrote:

"It is undisputed that on April 1, 1939, NCL had grown from a humble beginning in 1920, consisting of the ownership and operation of two second-hand buses in Minnesota, to ownership or control of 29 local operating transportation companies located in 27 different cities in 10 states. At the time the indictment was returned, the City Lines defendants had expanded their ownership or control to 46 transportation systems located in 45 cities in 16 states. The supplier defendants are manufacturers and marketers of buses, tires, tubes and petroleum products necessarily used by the local operating companies of the City Lines

A passenger nails a sign reading "Goodbye Forever" on a streetcar for its last run on November 13, 1939, in Seattle, Washington.

defendants and others. The value of their products introduced in commerce and sold to the City Lines defendants and their operating companies for the year 1946 was over $11 million and, for the period from 1937 to May 1, 1947, over $37 million."

The earliest documented case where NCL removed streetcars in favor of buses was in 1935 in Montgomery, AL. Rosa Parks made her historic stand for justice in 1955 sitting at the front of an NCL bus.

From that start, NCL accelerated rapidly, converting five systems across Illinois: Bloomington, Champaign, Danville, Decatur and Kewanee. As noted by the court, growth was rapid, and NCL continued to acquire systems around the country through the 1930s and '40s. Eight of those were in California, of which six were converted: Eureka, Fresno, Glendale, Pasadena, San Jose and Stockton. For *Roger Rabbit* fans, the other two systems, Burbank and Long Beach, were not converted. In California, NCL operated as Pacific City Lines.

On April 9, 1947, nine corporations and seven individual officers and directors of NCL and its affiliated companies, were indicted on two counts, the second of which charged them with conspiring to monopolize certain portions of interstate commerce, in violation of Section 2 of the Anti-trust Act, 15 U.S.C.A. § 2. The charges against one company were dismissed, but the remaining corporate and individual defendants were found guilty on that second count. They appealed in 1948 and again in 1949, and both times were denied.

The essential point is that the conviction was for anti-trust violations. As the judges wrote in the 1951 ruling: "There is no dispute that the City Lines defendants and the suppliers entered into various oral and written arrangements in accord with which the latter purchased preferred stock from the former, at prices in excess of the prevailing market prices, amounting in total cost to over $9 million and that the money received from the sales of such stock was used by City Lines defendants to acquire control of or a substantial financial interest in various local transportation companies throughout the United States.

"The respective supplier defendants entered into separate 10-year contracts with City Lines under which all of the buses, tires, tubes and petroleum products requirements of the City Lines operating companies » *continued on page 38*

Bus driver Robert Cassagne tips his hat to the New Orleans streetcar named "Desire" before starting the route on one of the new buses that bears the same name, 1948.

BEWARE OF

Unintended Economic Consequences

Library of Congress Prints and Photographs Division

By Michael A. Martorelli

Many observers are beginning to examine the unintended economic consequences of major reform legislation in the areas of health care (The Patient Protection and Affordable Care Act) and financial services (The Dodd-Frank Wall Street Reform and Consumer Protection Act). Such consequences have often followed sweeping actions taken by various elements of the federal government. All three branches have at times seemed equally oblivious to the unintended economic consequences of their decisions.

By definition, the legislative and executive branches must always act in concert to pass federal legislation; frequently, however, one of the two branches is generally acknowledged to have taken the lead in pushing for the passage of a particular bill. Many historic actions initiated by the President, Congress and the Supreme Court, including Andrew Jackson's forced closing of the Second National Bank, the Congressional crafting and passage of the Smoot-Hawley Tariff Act and the Supreme Court's consent to granting corporations the right of "personhood," have had consequences that resonated across the land long after the death of the individuals responsible for their sponsorship.

The Demise of the Second Bank of the United States

The Second Bank of the United States was authorized by Congress in 1816 after representatives from the Madison administration, Congress and the financial community recognized in hindsight the need for a federal institution to regulate the supply of bank credit, maintain a stable currency and handle the government's receipts and disbursements. The First Bank of the United States had performed some of those tasks with distinction during its existence from 1791 to 1811. However, state bankers resented the intrusion of federal power into the business of banking. The First Bank's congressional charter was allowed to expire as scheduled in 1811 without any of its erstwhile backers putting up much of a fight.

Left: Smoot & Hawley tax petitions, December 7, 1929.

The Second Bank was a private institution; it could accept deposits, issue and redeem it own notes and carry out all the functions of a commercial bank. It was not authorized to formulate or execute the nation's monetary policy. Yet, it was partly owned by the federal government and authorized to hold government deposits, handle federal payments and collections and facilitate transfers of federal funds. The Bank had a rocky start, as its first two presidents did not appreciate the institution's potential function in the economy.

When Nicholas Biddle was elected its president in 1823, he began using the institution's implied discretionary authority to control the level of money and credit outstanding, and to restrain the expansion of private bank credit. Thus, the Second Bank assumed some of the roles traditionally carried out by a central bank. Biddle exercised his authority partly by managing the Bank's borrowing and lending activities, i.e. by purchasing bills from other banks and issuing its own notes. The Second Bank quickly became the most important commercial bank in the country. In 1830, it issued more than 40% of all bank notes in circulation and was responsible for 15–20% of all bank lending. At the same time, it influenced the nation's credit supply by managing its redemption of other banks' notes.

Biddle realized the importance of using the bank's extensive branch network to facilitate its operations in both the domestic and foreign exchange markets. State bank notes used in the payment of federal obligations could sit in the vault at one of the Bank's 25 branches only for as long as that branch did not present it to the issuing bank for exchange for specie.

In acting aggressively and expansively, Biddle made mistakes, and may have sowed at least some of the seeds of the Second Bank's demise. In response to a banking crisis in 1825, the Bank sold government securities in an effort to increase its cash reserves and its potential to make loans. In doing so, however, it drained money from the banking system at a time when many state banks would have welcomed an increase in the Bank's purchasing of their notes. Biddle apparently thought he was helping the system with his actions, even though they had the opposite effect.

In vetoing the re-charter of Second Bank of the United States in 1832, President Andrew Jackson consciously acted on a long-standing disdain for banks in general, and that bank in particular. His veto was based as much on political considerations as economic rationale; he acted in a direct repudiation of the Supreme Court's 1819 decision in *McCulloch v. Maryland* that a national bank was indeed constitutional. He did not appreciate the value of having not just a *national* bank to act as the government's agent in collecting and disbursing funds, but a *central* bank that could create a uniform national currency, regulate the amount of money and credit outstanding, deal with the effects of unusual international specie flows and act as a lender of last resort for troubled banking institutions. With his veto, the President was striking a blow against the government's granting of monopoly power to a privately-owned bank controlled by a small group of stockholders.

Whether he realized it or not, he was also sowing the seeds of state regulatory primacy over the banking system. Congress would not authorize a federal institution to exercise any control over the nation's supply of money and credit for several more decades. Without a central bank empowered to regulate money and intervene in certain aspects of the national economy, the seven financial panics that occurred between 1837 and 1913 had to run their course before coming to an end. To be fair, the Federal Reserve has not been able to prevent or interrupt several financial crises that have occurred since its creation by Congress in 1913. Yet, all but the most strident observers of the economy appear to see the value in having such an institution; it seems inconceivable that any President would try to overturn the nation's third attempt to create a central bank.

The Tariff That Morphed Into a Monster

The movement to pass the tariff increases embedded in the Smoot-Hawley Tariff Act of 1930 was started by Republican politicians who wanted to court the farm vote in the presidential election year of 1928. The 1920s had been a period of economic prosperity for many Americans, but not for the 25% of the labor force that made its living on the farm. Those folks had been hurt by falling farm income and farmland prices, high rates of mortgage foreclosures and rural bank failures.

Tariffs on imported agricultural commodities had long been lower than those

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Unissued bank note from the Second Bank of the United States.

on most manufactured goods. Throughout 1927 and 1928, Republican legislators from the farm states had been unable to convince their colleagues from the industrial east or Democratic President Calvin Coolidge to approve bills raising agricultural tariffs. Those men thought they had gained additional leverage for their tariff proposals after the Republican landslide of 1928 and the election of Herbert Hoover as President.

In his March 4, 1929 inaugural address, the new President re-iterated his longtime support for limited increases in tariffs on agricultural products; he called for Congress to consider that idea in a special session to begin on April 15. Meanwhile, Congressman Willis C. Hawley's (R-OR) House Ways and Means Committee had spent January and February holding hearings on potential tariff revisions. On May 9, Hawley reported a bill to the full House; responding to the parochial interests of many legislators, his committee crafted a bill raising tariffs on more than 800 products, including a wide range of both agricultural and manufactured goods. Privately, President Hoover urged House members to scale back the increases and concentrate them largely on agricultural products. Just a few weeks later, however, the House approved Hawley's bill by straight party-line vote.

Space does not permit a complete description of the 10-month debate over the tariff bill that occurred in Senator Reed Smoot's (R-UT) Senate Finance Committee, or the equally compelling 10-week period of wrangling that occurred in the joint conference committee to reconcile Smoot's final product with Hawley's. Suffice it to say that parochial interests, legislative log-rolling and vote-trading were the order of the day; moreover, the steadily worsening economy encouraged the legislators to seek special protections for their constituents. For the most part, President Hoover stayed out of the debate, prompting severe criticism from both contemporaries and historians. His only public statements centered on the importance of enhancing the flexible tariff provision (FTP) that had been part of the Fordney-McCumber Tariff of 1922. In theory, that provision gave the independent Tariff Commission and the President the shared ability to adjust certain tariffs without congressional approval. In practice, however, it proved difficult to implement.

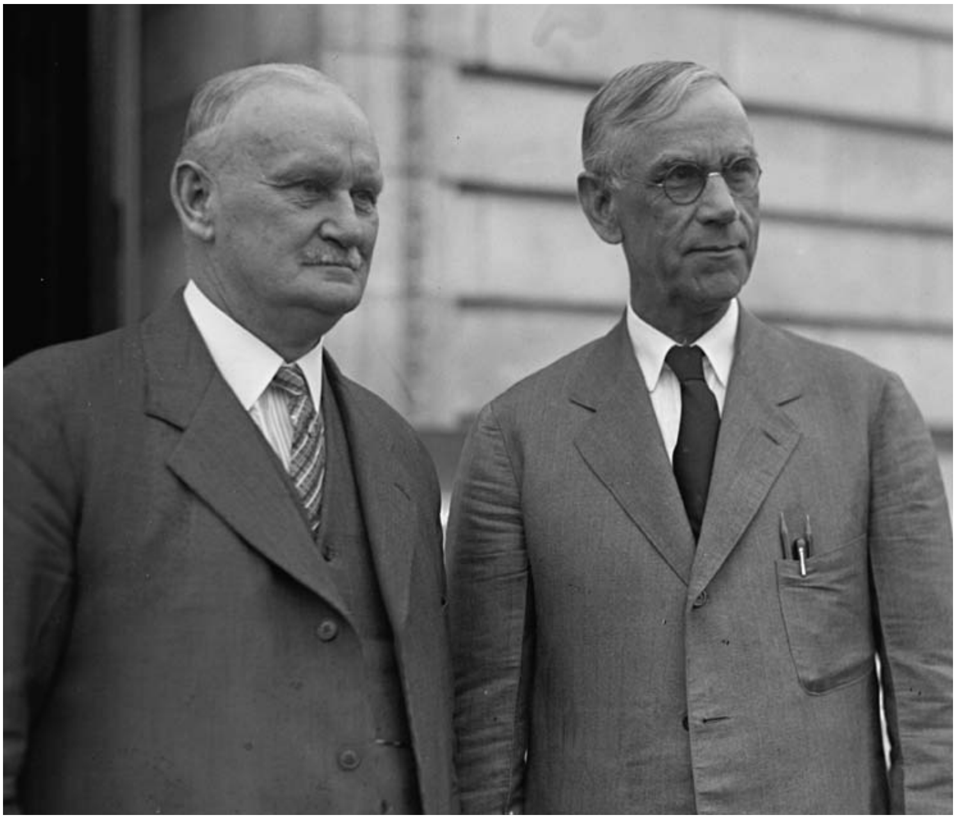
The bill that passed both branches of Congress in June 1930 was not crafted by dispassionate lawmakers trying to address an urgent national need, but by political actors responding to a range of pressures. It increased almost 900 tariffs, decreased more than 200 others and left almost 2,200 unchanged from previous levels.

The contemporary record documents the President's lack of support for the large number of tariff increases included in the final bill. Economists, labor leaders, businessmen and foreign ambassadors urged the President to veto this product of political compromises rather than economic rationale. However, since it included the enhancement of the FTP that President Hoover had demanded, he felt he had no choice but to sign it.

The Smoot-Hawley tariff increases contributed minimally to the decline in imports from 1930–1933, but were hardly the *infant terrible* as claimed in the hyperbolic commentary one often hears from various political actors. They certainly did not help the farm community. Instead, Smoot-Hawley had some unintended consequences, two of which are particularly striking.

The first was its contribution to a new climate of protectionism around the world. During its long legislative gestation, several nations protested against the bill's higher import duties. After its passage, many of them pointed to that law as a justification for revisiting the nature of their own tariff policies. Some of those actions disrupted long-standing trading relationships. Within two years, Great Britain, Germany and Japan created preferential and discriminatory trading blocs. In another area, the law's enhanced FTP established new executive branch authority over tariffs.

After the Democratic Party regained control of the presidency and the Congress in 1932, President Franklin Delano



Library of Congress Prints and Photographs Division

W.C. Hawley and Reed Smoot, April 11, 1929.

Roosevelt sought to change the poisonous atmosphere surrounding world trade. Recognizing Congress's inherent limitations when crafting national trade policy, he sought that body's approval for the authority to negotiate bilateral trade agreements with interested countries. After very little debate and very little lobbying by special interest groups, Congress passed the 1934 Reciprocal Trade Agreements Act (RTAA). Thus, that branch permanently ceded its constitutional authority over tariffs to the executive branch. The World Trade Organization (WTO) and numerous multilateral and bilateral trade pacts among nations are the permanent legacies of the Smoot-Hawley Tariff Act.

The Debate Over "Corporate Personhood"

Arguably, no decision by a branch of the federal government has spawned more long-lasting unintended economic consequences than the 1886 Supreme Court action in *Santa Clara County v. Southern Pacific Railroad*. Actually, it was not the court's decision in that case that sparked the controversy, but the assertion made by Chief Justice Morrison R. Waite's court reporter in a headnote to the decision that the Court believed the 14th Amendment's equal protection provision did indeed apply to corporations.

At the time, that brief statement did not seem particularly controversial; various Supreme Courts had confirmed that corporations were considered artificial persons in a dozen cases from 1809 to 1885. Yet it signaled the beginning of a long-running debate about the true meaning of those words. In 10 separate decisions during the next 11 years, the Court refined the right of government to regulate the activities of corporations.

Further, in classic applications of the *stare decisis* doctrine, the Court repeatedly confirmed that corporations were indeed persons, as noted in the *Santa Clara v. Southern Pacific* decision, and that they were entitled to equal protection under the 14th Amendment. Yet it was a court reporter's headnote, not the written opinion of a Justice, that established the amendment's application to corporations. Subsequent Court decisions in the 19th and 20th centuries reasoned that since corporations were persons, they were entitled to all the protections included in the Constitution.

Since 1886, various Justices have written dissenting opinions regarding the granting of "personhood" status to corporations. It is conceivable that a future Court may revisit the question; many Courts have ignored the concept of *stare decisis* and reversed the decisions of their predecessors. As noted above, however, in this case there is no decision to overturn, just the periodic affirmations of a concept first articulated in a headnote. It may be more difficult than usual to overturn 125 years of jurisprudence.

In sum, the unintended consequences of this body of case law are quite apparent; corporations have some rights (e.g. free speech) and some protections (e.g. against illegal search and seizure) the framers of the Constitution may not have intended to grant them. It would take much more space to detail the many ways corporations have asserted those rights down through the decades, and how the nation's economy would have evolved in their absence.

It is difficult for legislators, Justices and Presidents to assess the impact their actions may have on future generations. Most people who occupy those positions are much more concerned with the realities of daily life, and with the issues that present themselves for immediate consideration. It falls to historians to remind those in positions of political power to please consider the potential unintended economic consequences of their actions. **$**

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Juan de Miralles

Forgotten Foreign Founding Father of the American Revolution

By Vicente Ribes-Iborra

A little-known aspect of America's struggle for independence is the Spanish precocity in helping the insurgent cause. Long before Spain formally entered the war, Spanish agents foresaw that at any moment the flame of independence could be lit in the 13 colonies. Among those agents was the financier Juan de Miralles.

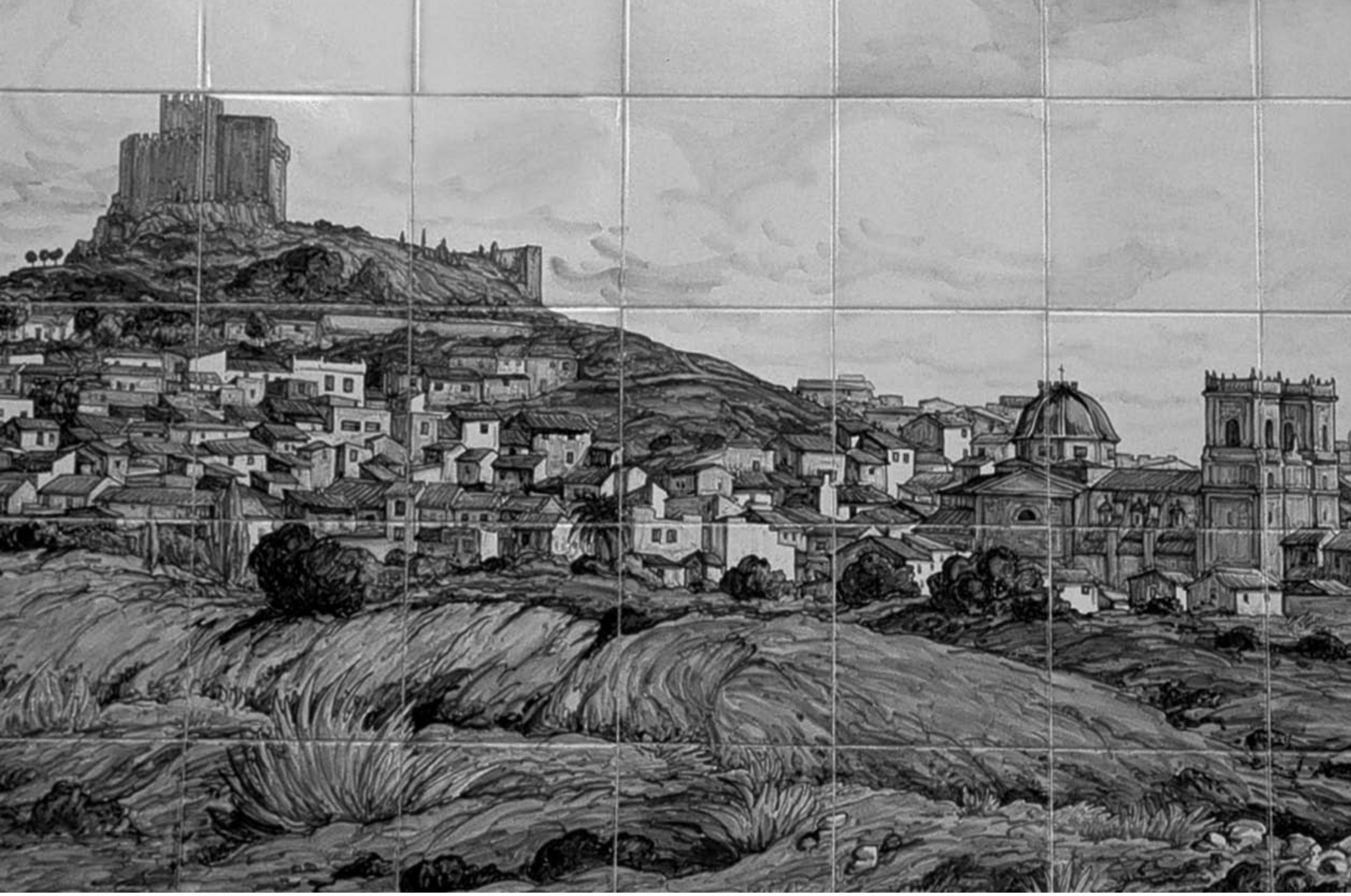
Miralles was born in the town of Petrel, Alicante, Spain on July 23, 1713. His early life is a mystery, until the year 1740, when he landed in Havana at the age of 27 with the impressive sum of 8,500 pesos. Such an amount at the time, and in view of Miralles' later commercial activities, would likely have been derived from the slave trade. This would also tie in with the obscurity of his early years, when he may have been connected with his uncle Manuel Miralles, a prominent Havana merchant.

Four years later, on August 22, 1744, in Havana's Church of the Holy Spirit, Juan was married to Maria Josefa Eligio de la Puente, who had a large family with relatives in Cuba and Florida. The young couple moved into a house in the Rue de Aguiar near the port of Havana and had eight children.

From Havana, Miralles began to trade with Florida and the English ports of Charleston, Philadelphia, New York and Boston. His businesses, both as an independent trader and in partnership with other merchants, were varied in nature and included trading in slaves. He also acted as a secret agent of the Spanish government and as a royal commissioner and spent nine months in Jamaica serving the monarchy. With the 1762 British invasion of Havana he again acted as a secret agent, though there are many contradictory versions of his actual role.

Miralles was the key player in the Hispanic slave trade during the 1760s and 1770s. In 1765, the Compañía Gaditana de Negros was founded as the largest slave-trading company ever created in the Spanish empire, and Miralles was included among its eight shareholders. Financier Robert Morris was a factor in Philadelphia for one of the other shareholders, the Spanish company "Aguirre, Aristegui y Cía." From Havana, Miralles managed the company, with capital circulating through the firms Mauritius Ronaque, London; Stevenson and Went, Barbados; and Verduc, Kerloguen, Payan & Cía, Havana.

Spanish aid to the United States was significant at the time, and Miralles and his agents provided financial, material



Birthplace of Juan de Miralles in Petrel, Alicante, Spain.

and indirect aid, as well as accurate and timely communication regarding English movements, obtained by Spanish agents in North America.

Financial Aid

After Miralles' death, his successor Ambassador Diego Gardoqui, reported that South Carolina owed Miralles 35,000 pesos, from his first known loan. Newly-arrived in Charleston, South Carolina, on his way to Philadelphia, Miralles made a loan to the impoverished state treasury for the reconstruction of the city's commercial center, which had been devastated by fire. His loan also provided food and medicine to those affected by the fire. Historical accounts based on the testimony of Miralles, his widow, his daughter and Robert Morris — who represented his interests with intimate knowledge of the financial arrangements — reveal that the loan was for 35,000 pesos. In a letter to Miralles' widow dated October 26, 1786, Morris stated that South Carolina had repaid 21,000 pesos, leaving 14,000 outstanding, to be repaid when the treasury would permit, which Morris deemed unfeasible.

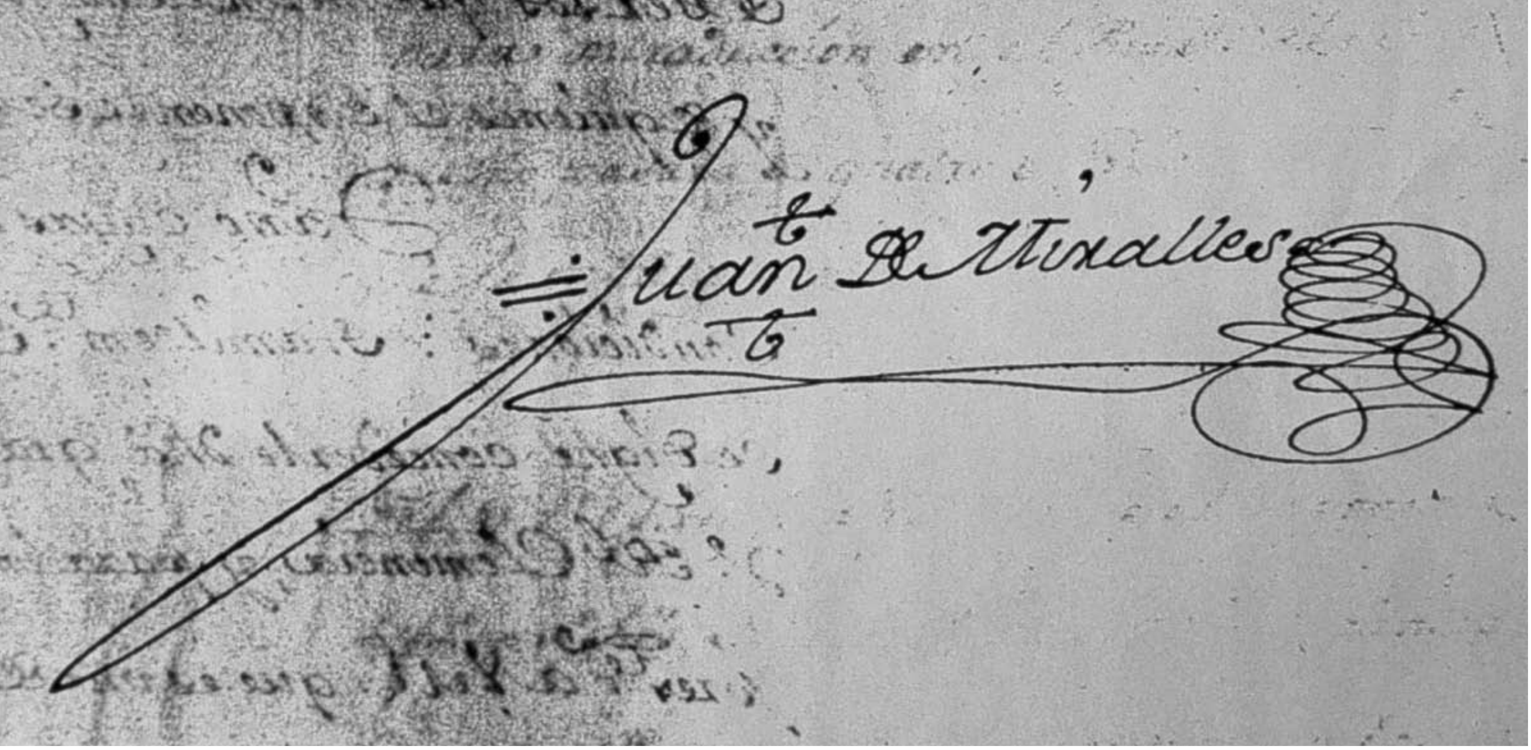
Miralles also provided financial aid to the US in the spring of 1778, when the American privateer Alexander Gillon, fleeing the British, stopped in Havana and asked for Spanish assistance to repair and maintain his fleet. Miralles assumed the cost of 14,424 pesos, which was never repaid by Gillon or South Carolina, in spite of Spanish protests to the state Congress and the support Miralles received from his friend Henry Laurens.

On another occasion, General Benjamin Lincoln, the American commander of Charleston, needed urgent financial aid to defend the city in 1779. Miralles rescued him with a loan of $140,000 from his own pocket.

After Miralles' death his loans to the American insurgents remained unresolved. His eldest daughter, Antonia Josefa, travelled to the US to try to collect the outstanding debts. On June 18, 1786 she arrived in New York, where she stayed for several months while Morris reported on the accounts of her father and tried to collect them.

Material Aid

In Holland, Miralles opened a credit of $50,000 for the American Revolution to



Signature of Spanish agent Juan de Miralles.

buy swords, which were likely used by Washington's Army. His partner, Robert Morris, who was a commercial agent of the Hope House in Amsterdam, may have been the channel for the capital. The company John and Gaspar Halbach & Sons, of Remscheid near Cologne sold Miralles 6,000 black and red leather hilt swords with yellow leather scabbard sheaths, at the price of two Dutch guilders and eight wages each.

Indirect Aid

Miralles also helped shore up the weak US economy by purchasing agricultural products, evading the British blockade. 6,000 pounds of flour were exported from Maryland thanks to the good offices of Miralles, who arranged with various merchants its delivery to Havana, his business headquarters. The price of flour in the capital of Cuba accordingly dropped from $35 to $20 per barrel.

Miralles' agents included Jose Eligio de la Puente, Jesse Fish and Cornelio Coppinger (Florida); Francisco Bouligny (Louisiana); Antonio Raffelin (Haiti); Luciano de Herrera (Jamaica); and Bernard and Jacques Texier (St. Eustatius). Miralles thus controlled the Spanish secret service deployed across the arc of the Caribbean, from his base in Philadelphia.

Miralles in Philadelphia

By 1776, the year of American independence, Miralles' business ability was already widely recognized. On December 31, 1777, he left Havana in the schooner *Nuestra Señora del Carmen,* arriving in Charleston on January 9, 1778. He remained there until the spring, when he met South Carolina Governor Edward Rutledge and bought another schooner, the *San Andres*, to communicate with the captain general of Cuba.

At the same time Miralles devoted himself to trade between Havana and the English colonies. In late May 1778, he reached the newly-freed city of Philadelphia, having passed through North Carolina, where he met Governor Abner Nash, and Virginia, where on May 28 he visited Governor Patrick Henry. He made the trip north on horseback accompanied by John Mathews and Francis Lewis, members of Congress who were returning to Philadelphia, thus consolidating his friendships and influence there.

As Spanish commissioner, Miralles was installed in a relatively modest home on South Third Street in Philadelphia, next to Powell House, for which he paid an annual rent of 800 pesos to the owner, George Mead and Company. At nearly the same time he took possession of his home, the first French ambassador, Conrad Alexander Gérard, arrived in the United States. He became a great friend to Miralles, as did his successor, the Chevalier de La Luzerne.

Miralles' home became a hub of diplomatic and commercial activities. Equipped with an open, bright and cosmopolitan personality, he immediately attracted the attention of Philadelphia society. He developed a close friendship with Robert Morris, who headed the Finance Committee of the Continental Congress, and became his business partner. In addition to being an agent in Philadelphia for "Aguirre, Aristegui y Cía," Morris owned several businesses in Havana during the British occupation of the city in 1762. Miralles and Morris' schooners took turns in the first voyages of direct trade between Philadelphia and Havana. Their schooners — *Dona Maria Barbara*, *Buck Skin*, *Don Miralles Son*, *Ranger*, *Swan*, *San Antonio*, *Mars, San Andres* and *Greyhound* — carried various products, including rice, sugar and Miralles' reports.

Miralles and Morris also partnered with

other prominent citizens, such as Silas Deane and attorney James Wilson, who started a business to provide masts for the French navy ships. Traders George Abbot Hall, from Charleston, and George Mead, from Philadelphia, were also Miralles' partners. Apparently, his participation in these trading companies focused on the financial aspects, leaving the details of the freight to his partners.

On November 25, 1778, Miralles visited the city of Bethlehem in the company of the French ambassador. Miralles was carrying a letter from Henry Laurens for the bishop of the Moravian Church Ettwein, who took them to visit Christian's Spring and the city of Nazareth, where he organized a concert in Miralles' honor. He returned to Philadelphia after a three-day visit.

On December 22, 1778, General George Washington arrived in Philadelphia, with numerous receptions and banquets held in his honor. Miralles organized the first of these on December 31, and from that day began to develop a friendship with Washington. It was the first in a series of banquets at his residence attended by Washington and his wife, as well as such prominent figures as the Marquis de Lafayette, Nathaniel Greene, General Philip Schuyler, Charles Wilson Peale, Robert Livingston, John Jay and Henry Laurens.

The relationship between Washington and Miralles was deeper than the strict etiquette established for an unofficial representative of a friendly power. Not only did Washington give Miralles the same treatment as the French ambassador, consciously altering the rules of international diplomacy, but he also repeatedly honored the Spanish financier with attentions that went beyond the rules dictated by courtesy.

For example, on the day that Gerard, the French ambassador, and Miralles visited his camp in Middlebrook on May 2, 1779, Washington ordered that the military passwords were to be "Miralles," "King Carlos," "Navarro" (General Captain of Cuba) and "Aranda" (Spanish Secretary of Foreign Affairs). In the military parade, Washington and his aide Alexander Hamilton were followed by Miralles on horseback, bejeweled and dressed in a scarlet silk and gold braid. On many occasions, Miralles overwhelmed Washington and his wife with gifts of exotic Cuban products, such as guava jelly, chocolate, limes, sugar and rum.

Site of Juan de Miralles' home on South Third Street in Philadelphia.

Final Honors

Washington demonstrated his friendship with Miralles again in the final chapter of Miralles' life in Morristown, where the American insurgents had set up their camp. At 4:00 AM on April 17, 1780, La Luzerne and Miralles left Philadelphia for Morristown, arriving on April 19, where they were received with all honors. Inclement weather, however, had sapped Miralles' strength, forcing him to bed in the Ford mansion opposite the room occupied by George and Martha Washington.

So serious was Miralles' condition that doctors had advised him to stay in bed rather than attend a military parade organized in his honor on April 24. The semiconscious Miralles did not hear the military fanfare, salvos of artillery and fireworks that accompanied the parade of troops commanded by General Von Steuben, and his chair remained empty at the place of honor next to General Washington and La Luzerne, who presided over the military occasion.

» *continued on page 37*

From GILT-EDGED to BLUE CHIP

By Jay Hoster

When the stock market was in full-scale panic mode in 1893, the *New York Herald* reported that "there was no relation whatever between prices made on the tape and the intrinsic value of the securities sold." The paper noted that "the fall was perhaps sharpest in gilt edged, dividend paying stocks which have been comparatively firm while others were tumbling."

Today even the most casual followers of the financial markets would describe those as blue chip stocks, while the term "gilt-edged" is now applied to one particular segment of the bond market.

How did this change in the language of investing come to pass? Perhaps the Stock Market Crash of 1929 played a role.

In its literal use, "gilt-edged" denotes the ornamentation of fine paper — the invitations to the wedding of Prince William and Kate Middleton were gilt-edged — and it has a place in the world of fine books, where the terms "t.e.g." (top edge gilt) and "a.e.g." (all edges gilt) are commonly used by book dealers.

The metaphorical uses of "gilt-edged" are wide-ranging. In *Young America in Wall-Street* (1857), George Francis Train wrote of "gilded churches for gilt-edged sermons," and while immigrants to America did not find the streets to be literally paved with gold, in 1873 a New Jersey auctioneer advertised the sale of "300 gilt-edged lots in the classic and charming precincts of Rutherford Park."

Present-day British sportswriters covering soccer and cricket often describe the squandering of a promising opportunity as missing or spurning a gilt-edged chance. One writer chronicling a 1–1 tie between Manchester United and Arsenal appeared to offer an ad hoc rating service for futility on the soccer pitch in his comment that a hapless Arsenal player "spurned four decent opportunities, two of them gilt-edged."

As a financial term the earliest usage cited by the *Oxford English Dictionary* is an 1867 statement on not honoring drafts "unless secured by previous deposits of specie, gilt-edged paper endorsed with

The Evolution of a Stock Market Term

two good names, or US or solvent State stocks." (In early usages the term "stocks" could apply to either bonds or equities.)

In today's financial markets the term "gilt-edged" — generally shortened to "gilt" — denotes a British government bond (although the term can also be used in other countries). Britain's Debt Management Office offers this definition: "A gilt is a UK government liability in sterling, issued by H[er] M[ajesty's] Treasury and listed on the London Stock Exchange. The term 'gilt' or 'gilt-edged security' is a reference to the primary characteristic of gilts as an investment: their security. This is a reflection of the fact that the British government has never failed to make interest or principal payments on gilts as they fall due."

In *The Gilt-Edged Market* (2003) Choudhry, Cross and Harrison label as "almost certainly apocryphal" the notion that British government bonds ever had actual gilt on the edges of certificates.

If gilt edges — actual or metaphorical — exist in a natural habitat of upscale respectability, blue chips have been a part of poker for a long time. Barry Popik, a compiler of American slang expressions, has located an example from 1878. He also cites a book entitled *Glimpses of Gotham; and, City Characters* (1880) in which the proprietor of a private gaming establishment boasted of the amenities offered to a select group of friends: "I have plenty of liquor. I have cards, and a set of regular red, white and blue chips."

An 1891 newspaper article told of a poker game played by four cattle ranchers riding in the caboose of a train carrying their livestock to Chicago in which "the value of the chips was stated in unusual terms, a white standing for one steer, a red chip for five steers and a blue chip for 10 steers."

Blue chips, however, are not always the highest-value chip. The 1909 edition of *The Official Rules of Card Games: Hoyle Up-to-date* noted that in draw poker chips "are of different colors, usually white, red, blue and yellow. Their values are fixed arbitrarily. It is common to value a white chip at one, a red at five, a blue at 20 and

a yellow at 100, although this is varied at will."

Blue chips at many Las Vegas casinos have the value of $1, while the New Jersey Casino Control Commission has established the blue chip at $10. The $5,000 gray chip is the highest-value chip in actual use in Atlantic City, although the regulations allow for a $20,000 mustard yellow chip and a $25,000 gold chip. Perhaps a highly sought-after athlete choosing to attend Princeton or Rutgers should be described — using precise Garden State terminology — as a "gray chip recruit."

In tracking early usages of "blue chip" in the financial markets the *Oxford English Dictionary* is surprisingly unhelpful. There's a 1929 reference to the odds of agriculture becoming a blue chip, but the earliest example relating to the stock market dates from 1932.

At one time a case was made for Oliver Gingold, a *Wall Street Journal* writer, originating the term in the 1920s, but an article published in the *Journal* on January 1, 1929, credited the usage to John W. Gates in a comment he purportedly made in October 1902, in reference to high call money rates paid by investors buying stock on margin: "'The game was being played with blue chips' and that people who could not stand the pace or the price were not obliged to sit in."

Gates' propensities were amply indicated by his nickname, "Bet a Million," but the condition described actually occurred a month earlier at a time when Gates was in Europe. On September 19, 1902, *The New York Times* reported heavy buying in two railroad stocks, "it being pointed out that in a high money market only the very rich can afford to take these stocks." In this period Gates possessed celebrity status as a financial player, so it seems reasonable to assume that if he had said anything so quotable, it would have been directly attributed to him.

Because of the work of Barry Popik, we can follow the evolution of the term. Popik cites an 1888 newspaper article in Duluth, MN, reporting on trading in the Chicago commodity markets that makes reference to "the 'blue chips' as the brokers call the local heavy weights."

In an 1892 article entitled "Day of Wild Excitement in the Stock Exchange" a Chicago newspaper reported that "transactions were not only enormous in the aggregate, but nearly all the individual trades were on a large scale." The paper quoted an exchange between a broker "rushing up to the Reading crowd" asking "What's bid for one hundred?" and the brush-off he received: "'Run away, little boy,' answered another mopping his brow. 'We are playing with blue chips only today.'"

Reading Company was a favorite railroad stock of the period, but the reference here is not to its intrinsic investment quality — the way that we would use "blue chip" — but to the price of the stock on that particular day.

The poker origins of "blue chip" are reflected in an 1899 Wall Street report from the *Philadelphia Inquirer* chronicling the course of market capitulation: "The little gamblers were cleaned out of their money a week ago. On Monday and Tuesday the red chips were raked away from the middle class. Today the blue chips were reached. Today's was a big men's market. It was liquidation by the men with big bank rolls that broke the market this afternoon."

As used by *The New York Times* in the 1920s, the term denoted a volatile stock favored by investment pools for their pump-and-dump schemes. In 1922, for example, the *Times* noted that Mexican Petroleum would be absorbed into the company owning three-quarters of its shares: "Brokers say that the exchange into Pan American Petroleum would prove advantageous to the shareholders, relieve the Stock Exchange of any embarrassment in connection with the trading and take away from the professional traders a stock which has come to be considered Wall Street's 'blue chip' in the speculative game."

In a 1924 article on a stock split by General Electric the *Times* commented of the pre-split shares that "one of Wall Street's favorite 'blue chips' passed out of existence. Although the old shares were more or less of an investment, there nevertheless was always considerable speculation in them, and they were popular because of the width and activity of their movements."

Similarly, in a 1926 article on an impending stock split the *Times* reported that "American Can has had an exciting time on the Stock Exchange during the last four or five years. It has been the subject of many pools and has made a great deal of money for the 'crowd' which acted as its market sponsor." While the stock would continue to be listed on the NYSE after the split, the *Times* noted that "the elimination of the old shares… will remove from trading one of Wall Street's favorite 'blue chips.'"

Today a stock split is a badge of honor for a blue chip stock even though it doesn't alter a shareholder's proportional ownership in the company. A split does mean that movements in the stock price will be of a smaller dollar amount, which in the frenetic environment of the 1920s would make the stock less visible to naïve and unwary investors ready to be impressed by large, flashy gyrations in the market.

There is, however, an early example of "blue chip" as a synonym for "gilt-edged," which involves General Electric. In November 1909, *The Ticker* (which later became *The Magazine of Wall Street*) ran a slice-of-investing-life story in which one of the characters is described as "the closest-mouthed, smoothest-running piece of human machinery to be found south of the Singer tower." (The Singer Tower was at the northwest corner of Liberty Street and Broadway and achieved the unusual distinction of being the tallest building in the world when it was completed in 1908 and the tallest building ever to be demolished when it was torn down in 1968.)

This investor "had accumulated a fortune by dealing principally in the gilt-edged stocks," and among his holdings were "Lackawanna, General Electric, Jersey Central and a bunch of other aristocratic cats and dogs. When asked why he favored such gilt-edged stuff he would reply, laconically: 'Blue chips for mine.'"

The wisdom of hindsight — which is, of course, the only investing wisdom guaranteed to work every time — gives this investor a .333 batting average. Though tarnished by the financial crisis of 2008, General Electric can still claim blue chip status. The two railroads, however, went into bankruptcy in the 1970s and were incorporated into Conrail.

So how did "gilt-edged" come to lose its place in the investing lexicon, dislodged by a term from the poker tables? Let's start with a comment composed in the lofty heights of the pre-crash market of 1929.

An investor writing in the September 7, 1929 issue of *The Magazine of Wall Street* confidently noted, "I have the great satisfaction of having bankers and investment counsels advise me that my holdings are all gilt-edge ones." Blissfully unaware of hazards to come, he boasted that "practically every one of my stock certificates has

written in large type across its face Dame Fortune's Golden Smile of ultimate success and glorious independence."

The transition to "blue chip" was already under way. The term was used in two articles in the September 21, 1929 issue of *The Magazine of Wall Street* and the following month, when the stock market was in the midst of cataclysm, the *New York World* reported on October 28, 1929 that "fantastic efforts to justify 'scarcity values' for blue chip stocks have been abandoned almost overnight."

Perhaps a piece of newspaper humor can offer a clue as to why this process became solidified. There was a day when the editorial pages of newspapers included jests about current events. Following the Stock Market Crash of 1929, the *Wichita Eagle* printed this acid-etched quip: "In the new lexicon of definitions in Wall Street an investment stock might be termed one that does not sag more than 50 points in one day."

Stock market commentators had long taken care to delineate between speculations and investments, with investments said to offer a degree of safety that speculations could not claim, but such distinctions were now grounds for satire. Perhaps in this new environment the grandiloquent phrasing of "gilt-edged," with its intimations of a prosperous future ruled over by Dame Fortune, inevitably lost ground to the term that had its source in gambling.

In *Ten Years of Wall Street* (1932), Barnie F. Winkelman wrote, "The leading issues are usually quoted at high prices… Over a term of years, investors in the 'blue-chips' have done well, but for those who purchase in a rising market, a financial parachute is advised. Such premier issues, however, offer the best investment opportunities in a long decline."

This brings us to the modern understanding of "blue chip," but then as now, remember to pack your parachute. $

The author wishes to thank Robert H. Jeffrey, retired chairman of The Jeffrey Co., for reading a draft of this article.

Jay Hoster is compiling a book of quotations about the investing experience. He has a particular interest in Wall Street folklore and can generally get a microfilm machine to work without having to pester a librarian. As a result of a convoluted family theory about naming offspring, he was named for Jay Cooke and Jay Gould.

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Patents, Hostile Takeovers and the Making of the Fortune of Alexander Graham Bell

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Watson let Bell finish his tirade and then calmly explained that Bell's testimony was of the utmost importance. After assuring Bell that the company would cover his expenses, Bell agreed to go back to Boston with Watson and prepare a written statement for the company. Bell, who was blessed with a remarkably good memory, wrote a detailed account of his invention of the telephone. It was such a well-done document that whenever a subsequent challenge to the Bell patents arose, the company usually used Bell's statement from the Western Union suit as its primary defense document.

Bell's written testimony, along with damaging testimony from Elisha Gray, who confirmed that he had written a letter to Bell in 1877 that clearly conceded the invention of the telephone to Bell, gave hope to the upstart company.

Although Western Union was on the ropes, it was not about to give up. The country's most powerful telegraph company was well capitalized and could easily afford to fight it out in the courts for years. Furthermore, its telephones were superior to Bell telephones, and Western Union held patents on those improvements. The Bell Company, on the other hand, was struggling to build a communications system from nothing; finances were tight, employees hadn't been paid for weeks and creditors stood waiting to be paid. Western Union could have simply played a waiting game that would force Bell Telephone to go out of business, but that didn't happen.

In November 1879, the companies reached a surprising out-of-court settlement. Western Union agreed to transfer "at cost all telephone lines, switchboards, patent rights in telephony and any pending claims belonging to Western Union to the Bell Telephone Company" (Grosvenor and Wesson, p. 98). In return, Western Union was to receive 20% of all telephone receipts until the patent rights ran out, and the Bell Company agreed to stay out of the telegraph business.

Historian David Hochfelder argues that "The overriding reason for Western Union's capitulation was the danger of a hostile takeover by Jay Gould after August 1879, which was especially threatening to Gould's rival and Western Union's largest shareholder, William H. Vanderbilt." Western Union officials evidently feared an alliance between Gould's American Union telegraph company and the Bell Company that would have diverted a great deal of business away from Western Union. In order to prevent that, Western Union decided to make peace with the Bell Company in order to prevent Gould's takeover of Western Union. Unfortunately for Western Union, this strategy ultimately failed as Gould successfully acquired control of Western Union in 1881. For Bell Telephone, the settlement breathed new life into the company and made the eccentric inventor of the telephone rich.

The Bells had returned from England strapped for cash. Mabel, who managed the family's finances, wrote to her father, "We have not a penny to call our own" and bemoaned that they were forced to live "on the grocer's confidence…" (Gray, p. 201).

In the spring of 1879, Bell stock sold "just above $50 a share with no takers, except Western Union" (Grosvenor and Wesson, p. 93). By December 1879, notes Bell's personal secretary and biographer Catherine Mackenzie, the stock "sold at $995 a share." The Bells, though not as rich as Vanderbilt or Gould, were set for life.

Bell's patent for the telephone has often been referred to as "the most valuable single patent ever issued," but the patent alone wasn't responsible for the Bells' good fortune. Market dynamics that the inventor would never understand determined his fate. Fortunately for Bell, the gods of the market chose to smile on him. $

Dr. Dan Cooper is the president of Active Learning Technologies. Brian Grinder is a professor at Eastern Washington University and a member of Financial History's *editorial board.*

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Juan de Miralles

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Miralles died on April 28, with General Washington present. The following day, his funeral procession left the headquarters of American troops between 4:00 and 5:00 PM. According to Colonel Alexander Scammel's edict held in the Morristown National Historic Park Library, it was Washington's desire "that all officers attend…because he wants to show all possible respect to the memory of so worthy a subject of the King of Spain."

While firing salvos of cannon at one-minute intervals, the funeral procession traversed the mile that separated the Ford mansion from the Morristown Presbyterian Cemetery. Miralles' body, as the diary of the doctor from the camp describes, was dressed as follows: "It was sumptuously laid out in a scarlet suit, embroidered with gold braid, with a cocked hat, embroidered also in gold braid, and an elegant braid wig, white silk stockings, shoes and buckles with a large diamond, a profusion of diamond rings adorned his fingers and several valuable stamp chains hanging from a fancy gold watch studded with diamonds."

Washington presided over Miralles' funeral ceremony. For a month, his remains rested in the cemetery, tucked in a wooden box doubly reinforced with iron, and under a constant guard ordered by Washington, so no one could steal its contents. The schooners *The Page* and *Stephens* brought Havana the news of Miralles' death, along with his remains. He was buried in the crypt of the Church of the Holy Spirit, near his house in Havana.

After Miralles, the epic moment of US independence passed, being replaced by "normal" diplomacy, at least as far as relations between Spain and the US are concerned. $

Vicente Ribes-Iborra holds a Ph.D. in American History from the Universidad Complutense de Madrid and is the author of numerous books, including Don Juan de Miralles y la Independencia de los Estados Unidos *(2003).*

Female Investment in America

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Note

1. Prudent mean voting rules increased the number of votes that a stockholder could cast at a rate less than one vote per share. Capped voting rules placed a maximum on the number of shares any one stockholder could cast in corporate elections

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The $1 Conspiracy

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were purchased from the suppliers with an agreement not to buy any part of the same from any party competing with them. They provided, in short, that existing purchase contracts of all operating companies with other competitive suppliers should be terminated at their earliest possible moment; that the operating companies would equip all their units with defendant suppliers' products to the exclusion of any products competitive therewith and that City Lines and their operating companies would not renew or enter into any new contracts with third parties for the purchase of such products or change any then existing type of equipment or purchase any new equipment using any fuel or means of propulsion other than gas."

In short, it was an illegal conspiracy, but only to the extent that the vehicles, tires, fuel and parts were only bought from within the cartel. The practice of replacing streetcars with buses was never at issue. At the time a considerable number of voters and elected officials considered that progress.

Unchastened, NCL went back to business. In 1950 it acquired the bus systems in Davenport, IA, Wichita Falls, TX, and even the railroad town of Rock Island, IL. The last acquisitions were in 1955, Peoria, IL, and a significant part of the Philadelphia bus system. Notably, Philly continues to operate one of the most extensive urban and suburban rail systems in the country, including that last inter-urban link to New York.

Although NCL had also shed some lines, a few as early as 1936, 1946 was a big year for divestitures, either to other operating companies, or to municipal authorities. There were a few divestitures in the 1950s but the period 1966 to 1974 saw most of the operations unwound. Among the graduating class of 1974 was the Birmingham system. The last NCL operation, in El Paso, TX, ceased in 1976. The debate over its legacy continues to smolder as transit funding is argued in local, state and federal budgets. $

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Insuring Lives and Protecting Families

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Americans have historically paid more for life insurance than white policyholders. In the 1880s and 1890s, a number of states prohibited the setting of life insurance rates based on race, so many companies simply stopped selling insurance to African Americans.

A few insurance company actuaries, though, found a mathematical way to get around these state discrimination prohibitions. They developed a concept, known as "impairment," that incorporated race and geography into the calculation of mortality and premium rates. As recently as the 1900s, it was reported that African Americans were charged 35% more than white policyholders for life insurance. By 1960, race-based pricing was stopped, but many policies — often small "burial" policies — are still being adjusted by state insurance commissions and the courts today. In the early 2000s, some of the nation's largest life insurers had announced multi-million-dollar race-based pricing settlements.

More recently, state regulators were cracking down on insurers who failed to proactively notify beneficiaries that they were entitled to life insurance benefits.

Insurers, though, also have been victims. Insurance fraud runs $80 billion a year, according to the Insurance Information Institute, New York.

Despite these intransitivities, the United States, with a population of 313 million, has benefited dramatically from life insurance. The American Council of Life Insurers reports that in 2010, more than 900 life insurance companies paid out $151 billion in benefits. **$**

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HOW MUCH DO YOU KNOW ABOUT FINANCIAL HISTORY?

TRIVIA QUIZ

By Bob Shabazian

1. When did stock exchanges end the Spanish-derived pricing system of quoting stocks in "eighths" of a dollar in favor of a decimal or pennies system?

2. How much did members of the New York Stock and Exchange Board originally pay in the early 1800s for a "seat" on the Exchange?

3. What noted financier said, "There is no investment which does not involve some risk and is not something of a gamble?"

4. Where and when was the country's first stock exchange established?

5. In the late 1800s, "flimsies" appeared on the Wall Street scene. What were they?

6. Where did the New York Stock Exchange open a 400,000 square foot data center in 2010?

7. What Manhattan financial district landmark building was the target of a bombing in 1920?

8. What federal agency, in 2011, held a press conference for the first time in its 98-year history?

9. What major credit rating agency downgraded US debt securities for the first time in history in mid-2011?

10. Which US President, born in New Jersey, is pictured on the now out-of-circulation $1,000 bill?

ANSWERS

1. April 2001 **2.** $25 **3.** Bernard Baruch **4.** Philadelphia in 1790 **5.** Daily handwritten bulletins published by Dow Jones **6.** Mahwah, New Jersey **7.** The headquarters of J.P. Morgan at 23 Wall Street **8.** The Federal Reserve Board **9.** Standard & Poor's **10.** Grover Cleveland